

BANGOR HYDRO-ELECTRIC COMPANY
Proposed Tariff for Space Heating Rate

STIPULATION

The purpose of this Stipulation is to resolve certain outstanding issues in this proceeding as described below. The undersigned parties hereby agree to the following:

BACKGROUND

1. In Phase I of the Bangor Hydro-Electric Company's ("BHE" or the "Company") rate case in Docket No. 97-596 (the "Mega Case"), the Public Utilities Commission addressed the issue of the amount of revenue which could reasonably be generated from space heating customers for service after March 1, 2000. The Commission in that Order also indicated that BHE could request that the PUC open an investigation to review this issue after the completion of the Mega Case.

2. On May 16, 2000, the Company notified the Commission that it was submitting a case asking the Commission to establish a rate for each of the Company's three electric space heating classes. The notice also referenced the Company's request that the Commission issue an accounting order to defer for later recovery any deficiency between space heating revenues assumed in the Mega Case, and any revenues expected to be collected as a result of this proceeding.

3. On November 14, 2000, following the submission of prefiled testimony, discovery, and a hearing before the full Commission, the Commission issued its final order in this case. The Order required Bangor Hydro to continue offering a space heat discount rate,

which rate may not exceed 5.4¢ per kWh. The Order also specified the appropriate breakpoint between the fully-tariffed headblock and the discount tailblock.

4. In addition, the Order discontinued the revenue imputation begun in Docket No. 93-701, and granted BHE's request for an accounting order under the following terms: BHE could defer the difference between the amounts anticipated to be collected based on the maximum space-heat rates (5.4¢/kWh) and the revised residential space heat rate breakpoint (700 kWh) established by the Order, using an elasticity factor of -.5, and the revenue imputed to the Company in Docket No. 97-596. In calculating the deferral amount, the Order further provided that the price changes used should only be those changes which occur as a result of this Order, and that the sales should reflect rate year level sales projected in the Mega Case. On December 6, 2000, the Company submitted its estimate of the amount to be deferred under the Accounting Order.

5. Finally, the Commission's November 14 Order required the Company to submit its analysis of whether any of its space heating customers were eligible for the low-interest loan program ordered in Docket No. 95-701, and the Company's plan to implement such a program in the event any customers were eligible. On December 6, 2000, the Company submitted its analysis and determined that no customers were currently eligible for the program.

DISCUSSION

6. With respect to the Accounting Order, the amount of revenues imputed to the Company in the Mega Case related to electric space heat was set at \$1,243,645. According to the terms of this Order, the amount anticipated to be collected under the program is \$818,645 for all three electric space heat classes, resulting in a deficiency of \$425,000. Consequently, the

Company is permitted to establish a regulatory asset equal to \$35,416.67 per month (effective the date of the Commission's order creating the regulatory asset, November 14, 2000) whose ratemaking treatment will be considered by the Commission during the Company's next rate proceeding. The carrying cost for this regulatory asset will be computed using the Company's weighted average cost of capital rate currently established in the Company's last rate case, Docket No. 97-596, which includes the Company's allowed return on common equity of 11%.

7. With respect to the Company's electric space heat customers receiving space heat service as of November 14, 2000, none are eligible for the low-interest loan program based on the information contained in the Company's December 6, 2000 filing. With respect to customers joining the discount space heat program after this date, such customers are not eligible for the loan program unless they were actively solicited to participate in the discount program by BHE. On a going forward basis, for customers still eligible for the loan program, the Company will file with the Commission its calculation of eligibility on June 15 of each year through 2007. The calculation will be made in accordance with the Commission's order in Docket No. 95-701 and will be based upon the average price per gallon for No. 2 heating oil during the winter heating season for each month estimated by Maine's State Planning Office, and the average monthly electric space heat "all-in" rate which after March 1, 2000, shall be based on the residential standard offer rate for generation service and the Company's special T&D electric space heat rate during the months of the heating season when such rate is available. Based on these principles, the baseline ratio for the loan program is 0.05612 and, therefore, the loan trigger, which is 40% higher than the baseline ratio is .07857.

PROCEDURAL MATTERS

8. The parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. §9062(4) and Section 742 of the Commission Rules of Practice and Procedure to the extent necessary to permit the Advisory Staff to discuss this Stipulation and the resolution of this case with the Commissioners at the Commission's scheduled deliberations, without providing to the parties an Examiners' Report or the opportunity to file Exceptions.

9. The record on which the parties enter into this Stipulation and on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of all prefiled exhibits, and all documents and information provided in responses to written and oral data requests, as well as any Technical Conference transcripts which may be provided to the Commission to assist in its decision as to whether to accept and approve this Stipulation.

10. This Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

11. This Stipulation represents the full agreement between the parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

12. If not accepted by the Commission in accordance with the provisions hereof, this Stipulation shall not prejudice the positions taken by any party before the Commission in this proceeding and shall not be admissible evidence therein or in any other proceeding before the Commission.

Respectfully submitted this ____ day of June, 2001.

BANGOR HYDRO-ELECTRIC COMPANY

OFFICE OF THE PUBLIC ADVOCATE

By: _____

By: _____

Donna L. Robinson